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CHINA

MONETARY TRANSPARENCY

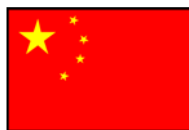
Country Report 2005

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CHINA



COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	••	••	••	••
Open decision process	•••	•••	•••	••
Availability of information	••	••	••	••
Central bank accountability	••	••	••	••
Score	2.25	2.25	2.25	2.00

OUTLOOK & COMMENTARY

China is still undergoing a transition from a centrally planned to a market-based economy. Significantly, China moved to a floating exchange rate system in July 2005 based on a basket of currencies, though the central bank continues to play a role in maintaining the level of the exchange rate. China's transparency standards fall short of international best practice. There have been no major improvements in monetary transparency over the past year, although there have been reassuring incremental positive advances.

The central bank is still not independent from the government, and does not have final authority over key policy decisions, including interest rate policy.

The Chinese authorities have announced that they will sign up for a Financial Sector Assessment Programme (FSAP). The implications of this would be significant, and would involve an IMF ROSC (Report on the Observance of Standards and Codes) for monetary policy transparency, however the timing of the FSAP has not yet been decided upon.

EXECUTIVE SUMMARY

2.25 Intent declared

There have been no major advances in monetary transparency over the past year, although there have been important incremental improvements. Ongoing efforts indicate the desire for greater transparency, modernisation and progress. China moved to a managed-float exchange rate system in July 2005 based on a basket of currencies.

The institutional framework of the People's Bank of China (PBC) is set out in the Central Bank Law of 1995, which mandates it to ensure the correct formulation and implementation of state monetary policies. The PBC's policy objectives require approval by the State Council, but the PBC continues to improve its professional competence. There has been an improvement in the technical capabilities of the PBC staff over the past year and commentators judged that officials in the central bank are open to develop financial innovation and increase transparency.

In April 2002, China joined the IMF General Data Dissemination System (GDDS), marking a major step towards increased transparency in the reporting of economic data. Commentators noted that there has been an improvement over the past year in terms of the availability of information, particularly in English. For example, the quarterly monetary report contains a greater degree of information than previously, and the China Banking Regulatory Commission (CBRC) provides additional information on non-performing loans of state-owned banks. Data is more accessible than it used to be, and it is perceived that both the PBC and the Ministry of Finance (MoF) are gradually keeping the media better informed of developments. Commentators also judged that the PBC is becoming more open and consistent with regard to targets.

There is still much room for improvement in the transparency and the disclosure of information in certain areas. China would benefit from increased transparency of monetary policy decisions, and the communication of such decisions and their rationale, which some commentators judged to be somewhat opaque. At present, no information is publicly available regarding the PBC's profit and loss statements. In addition, information on expenses and revenues -- while provided to the National People's Congress (NPC) -- is not released to the public domain. A balance sheet is published, although it lacks detail. There have been no improvements over the past year in the scope or timeliness of the central bank's financial statement, which is usually released with a time lag ranging from one to three months. The PBC did, however, publish an advance release calendar at the end of 2004 for this calendar year, and it has managed to uphold most of the commitments set in such calendar. No independently audited PBC financial statement is made publicly available. The Audit Bureau of the State Council publishes a report on government agencies, including the PBC, and the results of this are made available to the public.

The NPC began drafting anti-money laundering (AML) legislation in March 2004. The AML legislation is still in the drafting stages. The plan is for the legislation to go before the Standing Committee before the end of the year. Joining the Financial Action Task Force is contingent on having an effective anti-money laundering law.

China's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS

●● Intent declared

Objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

The People's Bank of China (PBC) is the central bank of the People's Republic of China (PRC). The 1995 Law on the People's Bank of China mandates the PBC to ensure "the correct formulation and implementation of state monetary policies, instituting and perfecting a macro-control system through the central bank and strengthening supervision and administration of the banking industry."¹ The PBC Law declares that the central bank's responsibilities are to: formulate and implement monetary policies; issue and administer the circulation of the local currency (renminbi); supervise banking institutions and the financial market; manage the foreign exchange and gold reserves, the treasury, and the payment and clearing system; supply banking statistics; and engage in international banking operations.² The stated aim of monetary policies is to maintain currency stability and thereby promote economic growth.

In 2003, the supervisory function was transferred to a new entity, the China Banking Regulatory Commission (CBRC). This separation was continued at the provincial level in 2004. Although the central bank staff has high technical capacity, the CBRC is relatively small and so in the past there have been concerns that it had limited ability to supervise local branch offices. Over the past year, however, it has hired more staff and set up several local offices. Those in the local offices are familiar with the operations of the financial institutions in their regions, so there should be a corresponding improvement in the supervision capabilities.³ The Asian Development Bank is helping the CBRC with statistics systems and rating capacity, starting with foreign banks and later encompassing all commercial banks. The CBRC conducts regular exchanges with the US Fed and other central banks. Banking associations such as American Bankers Association (ABA) are also providing training assistance.⁴

The PBC Law gives to the PBC the authority to use monetary policy instruments to achieve its policy objectives, subject to the approval of the State Council. Foreign exchange management is entrusted to the State Administration of Foreign Exchange (SAFE), which operates under the direction of the State Council. SAFE is responsible for the monitoring and control of the movement of foreign capital, and it ensures that the foreign exchange resources of the country are maintained at an appropriate level. It authorises and registers all public and private entities that engage in foreign exchange and compiles statistics on foreign exchange, public debt, and investment flows.⁵

From 2003, the Monetary Programme has been publicly available (in Chinese and English), prior to its implementation.⁶ Although minutes of policy meetings are not available, a policy statement is released. China moved to a managed-float exchange rate system in July 2005 based on a basket of currencies.⁷

Operational autonomy

The PBC is not independent of the government in the administrative or operational sense, although it has gained some autonomy in the use of monetary instruments in recent years. For example, commentators suggest that the PBC is completely autonomous in its decisions to use open market operations. However, the State Council has authority over interest rate and exchange rate policy.⁸ Decisions made by the PBC are generally subject to macroeconomic policies formulated in conjunction with high-level committees of the Communist Party, the Ministry

of Finance (MoF), and other powerful government agencies, such as the National Development and Reform Commission (NDRC), which have taken over the functions of the former State Planning and Development Commission. A significant change occurred with the separation of banking supervisory and monetary policy functions under the creation of the CBRC in 2003.

The PBC Law states that the premier of the State Council nominates the governor of the PBC and is confirmed by the National People's Congress (NPC). The premier of the State Council also appoints and removes the central bank's deputy governors. The law vests responsibility for the conduct of monetary policy in the governor. It also has sanctions against the abuse of power, conflicts of interest, breaches of secrecy, embezzlement, bribery, and neglect of duties by officials of the PBC.⁹

Institutional relationship between monetary and fiscal operations

Lending to government

The relationship between the government and the central bank is clearly regulated by the PBC Law. In terms of fiscal autonomy, the PBC Law clearly proscribes the PBC's subscription to primary issues of government debt.¹⁰ This clause was added into the PBC Law to eliminate the automatic monetisation of fiscal deficits by the PBC, which had been the case prior to 1995. As a result, the PBC has become more autonomous in the use of its instruments in recent years.

The PBC has in the past asked state banks to extend loans to public projects that are partially funded by government bonds. Such policy lending officially ended when the PBC eliminated the annual credit plan for state banks in January 1998, but it has since been reinstated unofficially to support public spending.¹¹ The PBC has also asked banks to lend more to farmers, small- and medium-sized enterprises, and consumers purchasing cars and homes. The PBC itself is not permitted to provide loans to governmental bodies or departments, except to those non-bank financial institutions whose borrowing is specifically licensed by the State Council.¹²

The MoF sells government bonds to banking institutions. The PBC issues banking notes and is in charge of the inter-bank market of Treasury bond transactions. The PBC may also open accounts for banking institutions as needed, but it may not overdraw such accounts. It may organise or assist in organising banking institutions to settle inter-institutional accounts. It may also determine the amounts, repayment schedules, rates of interest, and forms of loans to commercial banks, although the time limit for such loans cannot exceed one year.¹³

Central bank involvement in the rest of the economy

Following a decision by the State Council on 30 December 2003, the PBC announced a 45 billion US dollar (or 4% of GDP) capital injection for two of the four state-owned commercial banks, Bank of China and China Construction Bank. The recapitalisation was conducted by transferring funds from the PBC's international reserves into a new entity called the Central Huijin Investment Company. A similar method of recapitalisation is being formulated for a third state bank; the Industrial and Commercial Bank of China. The last of the four large state banks is the Agricultural Bank of China, which is unique as it has been directly involved in policy support to the agricultural sector. Its restructuring will be addressed in the context of overall reform of rural financial institutions.¹⁴

The Central Huijin Investment Company, the holding company for the government's share in the Bank of China and China Construction Bank, is considered a weak point. It is thought to have inadequate staff and enforcement authority, is not subject to appropriate accountability requirements, and operates independently of agencies responsible for regulation, supervision, or the implementation of monetary policy. The recapitalisation has also

increased the risks to the PBC's balance sheet, since reserves were exchanged for an equity investment of uncertain value.

Nevertheless, the strategy for revitalising the state banks is encouraging. Huijin is the government's agent for bank ownership, and it thus gets something in return for its money. The authorities put the most experienced PBC person in charge of Huijin. The broad strategy entails bringing in strategic investors, moving to a shareholding system and an initial public offering. This combination should properly structure management incentives. The authorities recognise that the best long-term policy would be to give up public ownership and supervise the banks from outside.¹⁵

Central bank profit allocation

Net PBC profits are transferred to the financial department of the State Council after the deduction of expenses and sufficient funds to maintain the PBC's general reserves at the level required by the State Council. Losses sustained by the PBC are covered by state allocations. According to the PBC Law, the central bank's capital is owned and allocated by the state.¹⁶ The PBC's financial liabilities and international reserves are publicly available in the *Quarterly Statistical Bulletin*, but with an inadequate level of detail.

Agency roles performed by the central bank on behalf of the government

Public debt management is undertaken by three organisations under the State Council, namely the MoF, the NDRC and SAFE. The MoF has the lead role in the determination, issuance, and management of domestic public debt, and it shares responsibility with the NDRC in authorising the issuance of publicly guaranteed debt. The MoF and the PBC coordinate the quantity of domestic debt, whose price is determined by the market. The maturity structure of debt is suggested by the MoF and the NDRC to the State Council.¹⁷

The NDRC and MoF jointly authorise new multilateral and bilateral borrowing in line with development objectives.¹⁸ The central bank has the duty of advising the government in its relationship with international organisations, and its governor is part of a government committee that discusses relations with the IMF and the Bank of International Settlements.

The PBC Law mandates the central bank to manage the state treasury and administer the inter-bank payment and settlement system on behalf of the state.¹⁹ Reforms were initiated during the 1990s to establish a modern payments system and develop a national inter-bank money market. The PBC has a national clearing system that provides a local currency payment and settlement service for all banks. It has 1,000 clearing centres covering over 600 cities and towns. The four state banks have their own internal clearing systems that allow intra-city remittances of 500,000 renminbi or less.

In May 2004, the authorities indicated the start of a three-year period for coming into compliance with the anti-money laundering (AML) requirements of the multilateral Financial Action Task Force.²⁰ The NPC began drafting AML legislation in March 2004. The AML legislation is still in the drafting stages. The plan is for the legislation to go before the Standing Committee before the end of the year. Joining the Financial Action Task Force is contingent on having an effective anti-money laundering law.²¹ In January 2005, 33 members of the FATF unanimously agreed to accept China as an observer.²² The NPC revised the Criminal Law in 1997 to include money laundering as a crime, and in 2003 the PBC issued regulations for financial institutions that included a framework for reporting and monitoring. The central bank is the supervisory authority for anti-money laundering operations by financial institutions, and now has a stronger AML bureau.²³ The *Rules for Anti-Money Laundering by Financial Institutions* were enacted in 2003, and include a framework for reporting and monitoring.²⁴ The NPC has ratified the UN Convention Against Transnational Crime.

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Enacted

The framework, instruments, and targets of monetary policy

Framework and monetary targets

The PBC seeks to achieve its monetary objectives through the attainment of publicly disclosed money supply targets. In theory, the state's Five Year Plan is the strategic basis, but in practice this has decreasing relevance.²⁵

Monetary instruments

The PBC Law states that the PBC is the sole body responsible for setting interest rates.²⁶ The PBC has stated that its long-term goal is to use interest rates to guide the demand and supply of capital. However, interest rates are not very effective in managing monetary policy in China today as capital markets are still underdeveloped. Some experts contend that exports are more influential in controlling the money supply than open market operations.²⁷ In recent years, the PBC has liberalised the rates of the inter-bank funding market and foreign exchange deposits in excess of three million US dollars. In 2004, it liberalised lending rates of commercial banks. The PBC also trades in the domestic bond market to help state banks with liquidity problems, rather than to guide interest rates. On average, it has three to four open market transactions each month, but the volume involved is not known.

The monetary policy-making body

Monetary board

The PBC has a Monetary Policy Committee whose functions, composition, and working procedures are set out in the Regulation on the Monetary Policy Committee, issued on 20 June 1999. The Monetary Policy Committee is responsible for conducting monetary policy.

The committee is comprised of the governor (chairman of the committee) and two deputy governors of the PBC; a deputy minister of finance; a deputy governor of the NDRC; a member of the Ministry of Commerce; the head of the SAFE; the head of the China Securities Regulatory Commission; a member of the China Insurance Regulatory Commission; three governors of the nine PBC branches, representing the different regions of the country; and one economist. The PBC nominates, in consultation with other government departments, the committee's members, and the State Council makes the formal appointment. The regulations state that committee members should be under 65 years of age, with no criminal conviction, and with over ten years of experience in finance.²⁸

The Monetary Policy Committee meets in the second week of the first month of every quarter, and the meeting has a quorum with at least two-thirds of committee members. At other times, meetings can be called with the approval of at least one-third of the members. The PBC has created a Monetary Affairs Analysis Team that meets on a monthly basis to review the macroeconomic environment underlying monetary policy.

Advance meeting schedule

No advance meeting schedule is published. There is an unwritten understanding that meetings are held in the second week of the first month of each quarter.²⁹

Public statements on monetary policy

Periodic publications

The Monetary Policy Committee publishes the decisions of its meetings in its official newspaper, the Beijing-based *Financial Times*. In addition, the PBC publishes a two-page report every quarter on the implementation of monetary policy in the *Financial Times* and other leading Chinese newspapers, such as *China Daily*. Annual Monetary Policy reports are also publicly available. From 2003, the PBC has been publishing in English its quarterly monetary policy reports. The PBC has also begun to use its Chinese language website to post more timely information about its work. Although the process is gradual, publicly available information has begun to be posted in English. Speeches by the PBC governor and deputy governors are regularly distributed by the Bank for International Settlements, with increasing frequency.

Commentators noted that there had been an improvement over the past year in terms of the availability of information, particularly in English. For example, the quarterly monetary report contains a greater degree of information than previously, and the CBRC is increasing its reporting of non-performing loans of state-owned banks.³⁰ Data are more accessible than they used to be, and it is perceived that both the PBC and the MoF are keeping the media better informed of developments than previously. Credit data has been published by sector since the end of 2004. In January 2005, the Monetary Policy Department issued a report entitled *Report on the Promotion of the Liberalisation of Interest Rates*, which commentators found useful in understanding the history of, and policies regarding, interest rates. Commentators also judged that the PBC is becoming more open and consistent with regard to targets. However, they noted that the PBC currently sets targets at the beginning of the year, but it does not explain developments relating to the targets during the year.³¹

However, commentators felt that there was still much room for improvement in the transparency of monetary policy decisions, and the communication of such decisions and their rationale, which some commentators judged to be somewhat opaque.³²

Public hearings

The PBC submits an *Annual Report* on monetary policies to the Standing Committee of the National People's Congress and makes public statements on its work several times a year in the domestic press. The governor also holds press conferences twice a year. In recent years, the PBC has become more active in soliciting opinions from the public. Two monetary decisions made in late 2002, namely the increase in bank lending to small and medium-sized enterprises and revising upwards the target growth for M1 and M2, were made upon the suggestion of private sector economists.³³ The NDRC, which has responsibility for setting the prices of some key goods in the economy, holds public hearings for groups affected by price rises. These are publicised ten days in advance.

Regulations on data reporting by financial institutions to the central bank

The China Banking Regulatory Commission (CBRC), created in April 2003, is charged with the supervision and administration of banking institutions. The creation of the CBRC reflects the government's concern with

strengthening the banking sector, in conjunction with the recapitalisation of the four major state banks. Reform of the banking sector is based on a four-pronged strategy. First, the government has reduced its interference in the banking sector by establishing three policy banks in 1994, promulgating the Commercial Bank Law in 1995, and terminating the credit quota system in 1998. Second, the MoF issued Rmb 270 billion in bank-restructuring bonds to recapitalise the four state banks in 1998. The 4.5 billion US dollars recapitalisation in 2004 repeated this effort, and will be followed by a further capitalisation of the ICBC. Third, the PBC introduced a five-tier loan classification system in 1999, asking all Chinese banks to adopt this regime as of 1 January 2002.³⁴ The new system requires banks to categorise loans into five grades (pass, special mention, sub-standard, doubtful, and loss) according to the borrowers' repayment ability, credit history and collateral value. Guidelines modelled on international practices for provision against non-performing loans were also drafted in 2002.³⁵ Fourth, on 21 May 2002, the PBC issued new rules requiring Chinese banks with assets of more than one billion renminbi or with deposits of more than 500 million renminbi to publish detailed annual information about their financial situation. The PBC also requires these banks to provide balance sheets, statements of income, and statements of owner's equity. They also need to provide details of their risk management and corporate governance, as well as details of major events that took place at the bank during the accounting year. The banks prepare their annual reports in Chinese and publish them within four months of the end of the accounting year.

The China Securities Regulatory Commission (CSRC) introduced legislation in 2002 requiring listed banks (and banks seeking to be listed) to appoint two accounting firms, one domestic and one international, for audits. This legislation builds on China's landmark Code of Corporate Governance for Listed Companies, adopted in January 2001 by the CSRC and the former State Economic and Trade Commission. This is designed to strengthen the role of shareholders, boards of directors, and boards of supervisors, and to tighten the requirements for information disclosure and transparency in corporate management.³⁶ In February 2004, the CSRC introduced new rules on capital adequacy and compelled banks for the first time to treat loans to state-owned enterprises and private enterprises equally on their balance sheets. This should encourage banks to begin pricing risk more carefully and should raise bank profitability.

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●● Intent declared

Release of central bank data

In April 2002, China joined the IMF General Data Dissemination System (GDDS), marking a major step towards increased transparency in the reporting of economic data.³⁷ In recent years, the PBC has been publishing more financial data on its official website, in its *Annual Report* and *Quarterly Statistical Bulletin*, and in the *Financial Times*. These data, released two to six weeks after the reference period, include broad money and credit aggregates, central bank aggregates, interest rates, stock market indices, international reserves and a depository corporation (banking) survey. Some statistics are already based on the IMF's Balance of Payments Manual and the core principles of the Basel Committee. At present, no information is publicly available regarding the PBC's profit and loss statements. In addition, information on expenses and revenues -- while provided to the National People's Congress -- is not released to the public domain. A balance sheet is published, though it lacks detail. There have been no improvements over the past year in the publication of the profit and loss statements or of information on expenses and revenues. Neither has there been an improvement in the level of detail or timelines of the financial statement, which is usually released with a time lag ranging from one to three months.³⁸

Since June 2002, the PBC has been publishing more detailed statistics in its *Quarterly Statistical Bulletin*. With its participation in the GDDS, the PBC has made a commitment to prepare documentation on the methodology and procedures for compiling monetary and financial statistics, to provide more detailed statistics and to use more channels to disseminate data. The PBC has enhanced its compliance with GDDS requirements by improving its resources in terms of trained personnel. Commentators noted that the PBC releases little information on its balance sheet. The PBC did, however, publish an advance release calendar at the end of 2004 for 2005, and it has managed to uphold the commitments set in the calendar, with the exception of one promise to release information on foreign exchange reserves. Commentators noted that the PBC could improve the disclosure of information in certain areas, such as lending.³⁹

The source data are collected from the PBC's 'All Accounts' financial reporting system. This system electronically collects stock data on monetary statistics and banking supervision indicators in a uniform format from banking institutions, which use different accounting procedures. The system allows for the collection of detailed data for classifying bank accounts by economic sector and financial instrument. Data reporting units are periodically inspected to review implementation of reporting instructions and regulations issued by the PBC.

Specialists in data collection and computerisation are being recruited and transferred from local branches to improve data dissemination, and the central bank expects to launch a Center for Financial Statistics in the near future, though there has been little progress in this respect over the past year. Commentators stated that it is not uncommon for the PBC to state an intention to do something such as this and then not follow through on it. Commentators also noted that staff limitations are a concern in that there is the will to push through reforms, but this is constrained by the limited capacity to do so effectively in many cases.⁴⁰

The central bank balance sheet

The PBC's balance sheet is published monthly, 40 days after the reference date, and is available on the PBC website and in its *Quarterly Statistical Bulletin*. The central bank also reports such details to the IMF.⁴¹

In 1996, the MoF introduced a new accounting system, which is also followed by the PBC to prepare its balance sheets.

Lender of last resort

The PBC does not disclose information on emergency financial support. The PBC's relationship with state banks and other financial institutions operates in a highly arbitrary and ad hoc manner. State banks look to the central bank for help and other concessions. In the past, failed financial institutions were either allowed to go bankrupt or were supported by funds from local governments and the MoF.

The creation of the CBRC has improved the lending mechanisms to financial institutions. In the past, requests for funds from commercial banks were automatically granted by the PBC. The PBC retains responsibility for ensuring the overall stability of the financial sector.

Public information services

The Chinese version of the PBC website has been gradually increasing the availability of information, and although at a very different speed, some improvement can be seen in the English version. Two government-backed websites, run by the China Foreign Exchange Trade System, have articles in English on monetary issues written by top PBC officials and other useful data on China's money and bond markets.⁴² To explain the central bank's policies to the public, senior PBC officials appear in question and answer sessions published in the *Financial Times* and broadcast on the national China Central Television.⁴³ During 2005, the PBC has improved the availability of information in English on its website. Figures for monetary survey, exchange rate, gold and foreign exchange reserves, statistics on foreign exchange and balance sheets of the PBC are also publicly available. Regulations issued by the PBC are also available on the website, in major newspapers, and government gazettes. While there is a statement accompanying monetary policy decisions, there are no minutes.

The PBC website in 2005 contained more comprehensive quantity and quality of information regarding monetary policy. It regularly published speeches by the chairman. The Bank for International Settlements regularly publishes, and distributes by email, speeches by PBC officials on its website.

The NDRC publishes on its external website a list of the prices which it sets. The CBRC website posts quarterly non-performing loans data. The Ministry of Commerce provides a valuable searchable and indexed website in English, and regularly hosts information from other government departments. Nevertheless, availability of information is still irregular across ministries.⁴⁴

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●● Intent declared

Accountability before a designated public authority

The PBC Law requires the PBC to submit work reports concerning monetary policies and financial supervision and control to the Standing Committee of the NPC.⁴⁵ In addition, summary versions of these reports are available to the general public.

In the past, the NPC was regarded as a rubber stamp of the government. In recent years, it has become more vocal on certain economic issues, although it remains subservient to the Communist Party when it comes to major government decisions. Officials of the PBC are answerable to the State Council and the NPC when called upon to appear, normally on a quarterly basis.

Financial statement

The PBC Law states that the PBC must abide by the state accounting system in managing its revenues and expenditures, and is subject to the auditing and supervision of the China National Audit Office (CNAO) and the financial department of the State Council.⁴⁶ It also must abide by the Statistical Law of 1996, under which it is illegal to misreport or tamper with data, or release data without approval.

In the absence of detailed information, it seems likely that the PBC's accounting procedures reflect the drawbacks of China's accounting practices. These are broadly consistent with International Accounting Standards, but there are still several shortcomings in terms of transparency and their consistent application, in addition to the lack of timely public disclosure and accuracy of basic data. The PBC uses a cash-based accounting system, while banking institutions use accrual-based accounting. The latter evaluates fixed assets and other investments at cost, not at market value. Capital is generally inflated by liberal asset revaluations, while provisions made for bad loans are grossly insufficient. The UN System of National Accounts is nominally adhered to, but the continued application of traditional accounting procedures hinders accuracy. There is, however, a willingness within the PBC to improve the quality of statistics, as required by the GDDS.

Audited financial statement

The PBC publishes its monthly balance sheets, but not its profit-and-loss statement. The central bank is working to remedy this problem, but until staff shortfalls are addressed, no significant improvements can be expected.

The budget of the PBC is incorporated in the central budget after examination and verification by the financial department of the State Council. The PBC submits information on its expenses and revenues to the MoF and the NPC, but this information is not publicly available. No independently audited PBC financial statement is disclosed. The Audit Bureau of the State Council does, however, publish a report on government agencies, including the PBC, and the results of this are made available to the public. The most recent report on the PBC reported that the PBC had been found to be involved in certain illegal practices. The report was published in the media and was made available online.⁴⁷

External and internal audit

The State Auditor conducts an audit of the PBC each year, but its findings are not publicly available. In addition, the PBC has an Internal Auditing Department that audits the accounts of all PBC departments and the financial institutions under its supervision. Information on the central bank's internal governance procedures is not disclosed publicly. Its accounting policies and internal audit arrangements are based on regulations and guidelines issued by the CNAO.⁴⁸ The CNAO's Department of Monetary Audit audits the operations of the PBC and banking institutions under its supervision.

Conduct of officials

The PBC Law specifies general standards for the conduct of personal financial affairs by officials and staff of the central bank. In particular, it details measures relating to the wrongful provision of loans, the provision of financial guarantees to a unit or individual, the unauthorised issue of funds, breach of confidentiality, embezzlement, bribery, malpractice for personal gain, abuse of powers and neglect of duties. There is no established legal protection for officials and staff of the PBC in the conduct of their official duties.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to China between 17 and 21 November 2005:

Despite considerable effort to meet with someone from the Central Bank of China, *Oxford Analytica* was not granted an interview.

National Development and Reform Commission, Beijing

20 November 2005

Zuo Chuan Chang Wang Yuan	Deputy Director	Academy of Macro-Economic Research Division of Fiscal and Financial Policy, Institute of Economic Research
Liu Guoyan	Associate Professor	Institute of Macro-Economic Research

ADDITIONAL INTERVIEWS

17 November 2005

Zhang Xuechun	Senior Financial Economist	Head of External Relations, Asian Development Bank PRC Resident Mission
Jamil Anderlini	Beijing Business Correspondent	South China Morning Post

18 November 2005

Tan Yaling	Senior Economist Professor Standing Director	Bank of China
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19 November 2005

Ray Brooks	Senior Resident Representative	IMF
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21 November 2005

Arthur Kroeber	Managing Editor	China Economic Quarterly
Brent Christensen	Senior Financial Officer	US Embassy

NOTES

¹ The Law of the People's Republic of China on the People's Bank of China (PBC Law), 1995, Article 1, is available in English at the PBC website www.pbc.gov.cn/english/

² The PBC Law, Article 4.

³ Interviews in China, 17-21 November 2005.

⁴ Interviews in China, 1-5 November 2004.

⁵ "Technical Assistance to the People's Republic of China for Strengthening Public Debt Management", Asian Development Bank, November 2002, p. 2.

⁶ Interviews in China, 10-12 November 2003.

⁷ Interviews in China, 17-21 November 2005.

⁸ The PBC Law, Article 5.

⁹ The PBC Law, Articles 9, 10, 13, 14, 50.

¹⁰ The PBC Law, Articles 5, 28.

¹¹ Interviews in China, 11-13 November 2002.

¹² The PBC Law, Article 29.

¹³ The PBC Law, Article 24-27.

¹⁴ IMF 2004 Article IV review.

¹⁵ Interviews in China, 1-5 November 2004.

¹⁶ The PBC Law, Articles 8, 38.

¹⁷ Interviews in China, 1-5 November 2004.

¹⁸ "Technical Assistance to the People's Republic of China for Strengthening Public Debt Management", Asian Development Bank, November 2002, p. 1.

¹⁹ The PBC Law, Articles 4, 23.

²⁰ IMF Country Report No. 04/351, November 2004, p. 23.

²¹ Interviews in China, 17-21 November 2005.

²² "Combating Money Laundering and Terrorist Financing in China", speech by PBC Deputy Governor, Xiang Junbo, at a seminar on ALM and combating terrorist financing on 22 September 2005.

²³ Interviews in China, 1-5 November 2004.

²⁴ Available at www.pbc.gov.cn/english/jinrongfagui/

²⁵ Interviews in China, 1-5 November 2004.

²⁶ The PBC Law, Article 4.

²⁷ Interviews in China, 11-13 November 2002.

²⁸ The regulations are available on website of the People's Bank of China, www.pbc.gov.cn

²⁹ Interviews in China, 1-5 November 2004.

³⁰ The CBRC reports regularly on non-performing loans, and not only of the four largest state-owned banks, but of the twelve shareholding banks also.

³¹ Interviews in China, 17-21 November 2005.

³² Interviews in China, 17-21 November 2005.

³³ Interviews in China, 11-13 November 2002.

³⁴ China adopted Bank of International Settlements standards for the classification of bank loans at the beginning of January 2002. Nevertheless, the banks' reporting and classification of lending behaviour is still perceived as unpredictable and politically motivated.

³⁵ "Memo on Non-Performing Loans in the People's Republic of China", Asian Development Bank, October 2002, p. 2.

³⁶ "Code of Corporate Governance for Listed Companies in China", China Securities Regulatory Commission & State Economic and Trade Commission, January 2001.

³⁷ IMF General Data Dissemination System (GDDS) - China, at <http://dsbb.imf.org/Applications/web/gdds/gddscountrycategorylist/?strcode=CHN>

³⁸ Interviews in China, 17-21 November 2005.

³⁹ Interviews in China, 17-21 November 2005.

⁴⁰ Interviews in China, 17-21 November 2005.

⁴¹ Interviews in China, 11-13 November 2002.

⁴² www.chinabond.com.cn; www.chinamoney.com.cn

⁴³ Interviews in China, 11-13 November 2002.

⁴⁴ Interviews in China, 1-5 November 2004.

⁴⁵ The PBC Law, Article 6.

⁴⁶ The PBC Law, Article 39.

⁴⁷ Interviews in China, 17-21 November 2005.

⁴⁸ Website of China National Audit Office, www.cnao.gov.cn